

Idaho Legislative Audits
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Idaho Industrial Commission

Management Report on Internal Control

Issued: December 9, 2005
Fiscal Year: 2002, 2003, 2004, and 2005



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO INDUSTRIAL COMMISSION

PURPOSE AND SCOPE. In planning and making our audit of the statewide basic financial statements, we performed certain audit procedures to evaluate the effectiveness of the Idaho Industrial Commission's internal control design and operation. Consequently, the limited scope of our procedures does not allow us to give an opinion on the Commission's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed.

Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. This evaluation, together with other evaluations and various audit procedures applied at other agencies, allows us to express an opinion on the statewide basic financial statements prepared by the State Controller's Office.

CONCLUSION. The one finding and recommendation noted as a result of applying the audit procedures referred to above, if addressed, would improve and strengthen the Commission's internal control structure and operating efficiency. These matters are discussed in the Findings and Recommendations section of this report.

FINDINGS AND RECOMMENDATIONS. We have summarized the finding and recommendation below. The recommendation is made to assist management in fulfilling its responsibility to establish operating efficiency.

FINDING #1. The Industrial Administration Fund averaged \$5.9 million in excess cash each month during fiscal year 2005. Average monthly excess cash during fiscal years 2002, 2003, and 2004 was \$4.5 million, \$3.8 million, and \$4.4 million, respectively. The money in this fund comes from a premium tax established in Idaho Code, Section 72-523. The premium tax is set at 2.5% of the net workers' compensation insurance written by sureties, and 2.5% of premium amounts self-insurers would be required to pay to the State Insurance Fund. Because the premium tax rate is fixed, management cannot adjust the rate to reduce excess cash or increase cash, as needed, without legislation.

The premium tax rate should be commensurate with the financial requirements for administering the Workers' Compensation Law and paying claims. Excess cash continues to accumulate, and insurers and ratepayers may be overcharged because management cannot adjust the premium tax rate in a timely manner to match cash needs.

We recommend that the Commission monitor the fund's cash balance with the cash needs of the Commission and propose recommendations to the legislature for appropriate adjustments as needed.

PRIOR FINDINGS AND RECOMMENDATIONS. There was one finding and recommendation in the prior report, the status of which is explained below.

PRIOR FINDING #1. Cash draws were not completed in compliance with federal regulations. Federal regulations require that State agencies keep cash balances in federal programs to a minimum. The timing and amount of cash advances should match, as closely as possible, the actual disbursements made by the recipient organization for direct program costs. The Commission drew the entire balance of the Crime Victims' Compensation Grant prior to incurring expenditures for the full amount of the draw. For example, the Commission requested \$573,000 from the grant, but only expended \$442,497 in related costs, resulting in a \$130,503 cash balance.

The Commission reviewed its policies and modified procedures for completing cash withdrawals from the Crime Victims' Compensation Grant to comply with federal regulations. **Status: CLOSED**

AGENCY RESPONSE. The Commission has reviewed the report and is in general agreement with its contents. The Commission's full response and corrective action plan is included in the Findings and Recommendations section of the report.

FINANCIAL SUMMARY. The Commission is funded primarily from workers' compensation insurance premium tax assessments, fines, interest, and restitution payments. A small federal grant and some miscellaneous revenue are also received. Revenue is used to support operations of the Commission's worker compensation rehabilitation and adjudication programs, as well as to make payments to crime victims and transfers to the Second Injury Fund administered by the Department of Administration. Disbursements for fiscal year 2005 included personnel costs of \$6,573,950, operating costs of \$1,544,850, capital outlay costs of \$133,100, and trustee and benefit payments of \$3,492,450. The amount invested with the State Treasurer's Office at June 30, 2005 was \$4,247,650.

Although an opinion is not given on the financial data presented in this report, one is given on all State funds in the statewide *Comprehensive Annual Financial Report* that includes the financial data presented here.

IDAHO INDUSTRIAL COMMISSION – FINANCIAL SUMMARY

Fiscal Year 2002

Fund No.	Title	Beginning Cash Balance	Plus Receipts	<u>Less</u>		Ending Cash Balance
				Disbursement s	Transfers Out	
300	Administration	\$5,074,349	\$7,854,527	\$8,924,565	\$0	\$4,004,311
313	Crime Victims	3,319,606	1,955,735	1,872,844	0	3,402,497
348	Federal	60,424	451,345	508,855	0	2,914
349	Miscellaneous	912	23,458	20,755	0	3,615
519	Special Indemnity	0	5,377,397	2,272	5,375,125	0
Total		<u>\$8,455,291</u>	<u>\$15,662,462</u>	<u>\$11,329,291</u>	<u>\$5,375,125</u>	<u>\$7,413,337</u>

Fiscal Year 2003

Fund No.	Title	Beginning Cash Balance	Plus Receipts	<u>Less</u>		Ending Cash Balance
				Disbursement s	Transfers Out	
300	Administration	\$4,004,311	\$7,882,997	\$8,437,960	\$0	\$3,449,348
313	Crime Victims	3,402,497	2,038,786	2,145,010	0	3,296,273
348	Federal	2,914	274,530	274,588	0	2,856
349	Miscellaneous	3,615	25,144	19,830	0	8,929
519	Special Indemnity	0	5,054,832	5,585	5,049,247	0
	Total	<u>\$7,413,337</u>	<u>\$15,276,289</u>	<u>\$10,882,973</u>	<u>\$5,049,247</u>	<u>\$6,757,406</u>

Fiscal Year 2004

Fund No.	Title	Beginning Cash Balance	Plus Receipts	<u>Less</u>		Ending Cash Balance
				Disbursement s	Transfers Out	
300	Administration	\$3,449,348	\$9,320,176	\$8,224,430	\$0	\$4,545,094
313	Crime Victims	3,296,273	2,089,266	2,237,985	0	3,147,554
348	Federal	2,856	499,070	499,269	0	2,657
349	Miscellaneous	8,929	29,441	21,751	0	16,619
519	Special Indemnity	0	4,498,578	0	4,498,578	0
	Total	<u>\$6,757,406</u>	<u>\$16,436,531</u>	<u>\$10,983,435</u>	<u>\$4,498,578</u>	<u>\$7,711,924</u>

Fiscal Year 2005

Fund No.	Title	Beginning Cash Balance	Plus Receipts	<u>Less</u>		Ending Cash Balance
				Disbursement s	Transfers Out	
300	Administration	\$4,545,094	\$10,544,093	\$8,871,846	\$0	\$6,217,341
313	Crime Victims	3,147,554	2,176,275	2,237,587	0	3,086,242
348	Federal	2,657	866,505	613,626	0	255,536
349	Miscellaneous	16,619	30,703	21,309	0	26,013
519	Special Indemnity	0	4,639,919	0	4,639,919	0
	Total	<u>\$7,711,924</u>	<u>\$18,257,495</u>	<u>\$11,744,368</u>	<u>\$4,639,919</u>	<u>\$9,585,132</u>

OTHER ISSUES. In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Idaho Industrial Commission and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the director, Mindy Montgomery, and her staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

Ray Ineck, CGFM, Supervisor, Legislative Audits

Eugene Sparks, CPA, CGFM, Managing Auditor

Report IC30005

For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540.